

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS LYONS TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-16-18)

The United States Postal Service hereby provides responses of witness Lyons to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T1-16-18, filed on July 19, 1996.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

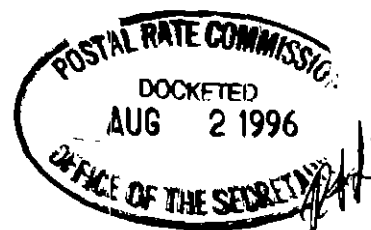
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

David H. Rubin
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -5402
August 2, 1996



**RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T1-16. In your testimony at 1, you indicate that the overall objectives of Docket No. MC95-1 “were classifications that better reflect{ed} both cost and demand considerations.” Your testimony at 2 states,

Specific pricing reform objectives include more market based prices, more equitable contributions from the service to institutional costs.....

Your testimony at 11 states,

The proposed changes in this filing that would significantly increase net income are supported by the Board’s policy objectives with regard to equity restoration.

The Postal Service’s Docket No. MC96-2 Request for a Recommended Decision on the Further Classification Reform of Preferred Rate Standard Mail and periodicals states at 4-5,

The statutory target cost coverage goal and the contribution neutrality goal were established because this Request is not intended to be a revenue case, nor an opportunity to challenge, change or improve on the Commission’s conclusions drawn from the record in Docket R94-1..... The Postal Service is also hopeful that, by using a contribution neutral approach, the Postal Service, the Commission, and the parties to this case can avoid the inter-class cost coverage disputes that generally occur in omnibus revenue cases.

Since the Docket No. MC96-3 is not revenue neutral and contributions from services to institutional costs have been changed by the Postal Service, to the best of your knowledge and information, does the Postal Service view this filing as:

- (1) A revenue case.
- (2) Solely a classification case.
- (3) A revenue and classification case, and/or
- (4) An opportunity to challenge, change or improve on the Commission’s conclusions drawn from the record in Docket No. R94-1.

In your response, please address each listed item.

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RESPONSE:

MC96-3 does not fit neatly into any of the four categories you have listed. The Postal Service views MC96-3 primarily as a classification reform case. However, the filing also includes some pricing changes which are an integral part of the classification reforms being proposed. The reforms result in an improved basis for pricing these services, consistent with Postal Reorganization Act pricing criteria and Postal Service goals such as product usefulness and simplification, equity restoration, and overall rate stability.

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OCA/USPS-T1-17. Your testimony at 1 states,

Reforms of expedited and parcel classifications are under development, and in the future proposals for other reforms will follow.

- a. Will the expedited and parcel classifications reform proposals be net revenue neutral or will they be designed to increase net revenues?
- b. To your knowledge, what base and test year will be used in the expedited and parcel classification reform proposals?
- c. When will the Postal Service file the expedited classification proposal?
- d. When will the Postal Service file the parcel classification proposal?
- e. To the best of your ability, please identify other reform proposal that are anticipated to follow? In addition to indicating whether future filings are expected to be revenue neutral, provide added net revenue, and/or improved contributions resulting from the reforms proposed, identify the base and test year for each contemplated filing.

RESPONSE:

- a. & b. These decisions have not been finalized. As in this docket the emphasis will be on classification reform. However, the reforms could result in some additional net revenue.
- c. This decision has not yet been made.
- d. This decision has not yet been made.
- e. These decisions have not yet been made.

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OCA/USPS-T1-18. Your testimony at 5 states,

In the past, the Postal Service has typically made rate and classification changes as part of a set of general rate change proposals. In part, this practice was influenced by financial policy determinations, by the convenience of adjusting many rates and fees simultaneously, and by the interrelationships among costs, revenues, and volumes of all mail and special services.

- a. Based on your testimony, does the Postal Service believe that more targeted rate and classification changes are more convenient? If your response is negative, please explain in light of the testimony cited in this interrogatory.
- b. If your response to part a. of this interrogatory is affirmative, please identify for whom they are more convenient.
- c. To the best of knowledge your knowledge and in information, does the Postal Service expect to file future omnibus rate cases that encompass all classifications?
- d. If your response to part c. of this interrogatory is affirmative, please explain when and why it is ever appropriate to file a limited rate and classification case. Include in your response rationale for how a limited rate and classification case allows the inter-class cost coverage dispute to be resolved to the benefit of all.
- e. If the Commission approves the Postal Service's Docket No. MC96-3 filing in its entirety, will the inter-class cost coverages established in R94-1 change? If your answer is other than an unqualified yes, please explain.
- f. To the best of your knowledge and information, does the Postal Service anticipate future rate and classification filings to be more narrow in scope than previous omnibus rate cases?
- g. To the best of your knowledge and information, does the Postal Service anticipate future rate and classification filings to be targeted to mail classes that are not meeting the "statutory targeted cost coverage goal?" Please identify in your response your understanding of who establishes the statutory targeted cost coverages.
- h. To the best of your knowledge and information and given the testimony cited in this interrogatory, does the Postal Service believe that more targeted rate and classification changes are possible due to changes in the interrelationships among costs, revenue, and volumes of all mail and special services? If your response is affirmative, please identify those changes and fully explain your response.

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RESPONSE:

- a. No. As stated in the testimony you have cited, rate and classification changes tend to be more convenient when done simultaneously in an omnibus rate case. Interim classification filings require additional time, resources, and effort, which tends to make them less convenient.
- b. Please refer to my response to a., above.
- c. Yes.
- d. It is appropriate to file rate and classification cases, limited or otherwise, when the Board of Governors makes a determination to request changes pursuant to 39 U.S.C. §§ 3622 and 3623. My testimony does not state that Docket No. MC96-3 or any other hypothetical limited rate and classification case "allows the inter-class cost coverage dispute to be resolved to the benefit of all."
- e. I am not sure what you mean by "inter-class cost coverages". The cost coverages for the special services that are the subject of the Postal Service's Request would change as a result of this filing. I do not believe relationships among the other cost coverages are pertinent because no other changes in rates or fees have been proposed.
- f. The Postal Service expects that there will be future cases more narrow in scope than previous omnibus cases. Also, please see my response to c., above.

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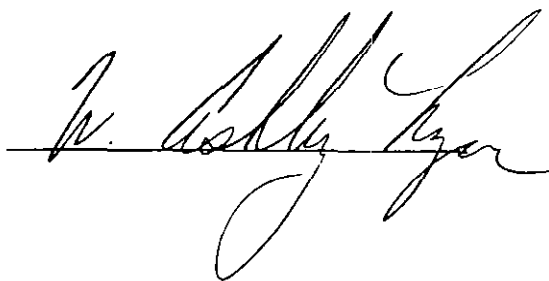
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- g. The quotation refers to non-profit mail for which Congress has established a targeted cost coverage relationship. No comparable cost coverage goal exists for any other category of mail or postal service.
- h. More targeted classification reforms are possible in the future.

DECLARATION

I, W. Ashley Lyons, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, reading "W. Ashley Lyons", written over a horizontal line.

Dated: 8-2-96

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

David H. Rubin
David H. Rubin

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Washington, D.C. 20260-1137
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